

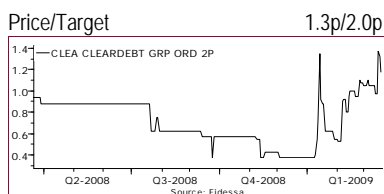


ClearDebt

BUY

Maiden profit and good growth prospects

Share Price



Market Data

Stock Code	CLEA.L
Listing	AIM
Sector	General financial
Market Cap	£4.0m
Enterprise Value	£5.0m
12-month high/low	1.4p/0.4p
Next results (prelims)	September

Company Statistics

Shares in Issue	308.3m
Net debt	£1.0m
Gearing	23.6%
Interest cover	2.7x
NAV per share	1.4p

Major holders

Management	55.8%
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Research coverage

Delta force (BUY)	07.01.09
Prelims (HOLD)	02.10.07

Company Description

Provider of Individual Voluntary Arrangements (IVAs) and Debt Management Plans (DMPs) and associated services (such as prepay cards) to indebted individuals
www.cleardebtgroup.co.uk

Analyst

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The company has reviewed a draft of this research note and factual changes have been made.

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ClearDebt's maiden profit (£0.1m) represents a £0.7m swing in profitability as increased IVA and DMP volumes improved operating efficiency on revenues up 82% to £1.4m. ClearDebt's initial progress was hampered by the Creditors' Strike, the delays to the agreement of the IVA Protocol and a highly competitive environment. The competitive landscape has become more benign and the volume of IVA cases in general, and at ClearDebt specifically, has returned to growth, as creditors accept the role of IVAs and get comfortable with the new charging structures. ClearDebt's low cost model is suited to the new operating environment of lower fees and it is successfully scaling. The IVA division is complemented by Abacus's DMP business and there is scope for additional revenue streams. The share price has performed strongly this year 2009 as investors revisit the sector but we maintain our BUY recommendation.

IVA volumes increased

200 IVAs were agreed in H1 - more than double H1 FY08 and with consistent month-on-month growth. H2 has started well with 29 cases agreed in the seasonally weak in January, 41 in February and 51 meetings held or booked by the middle of March. Fact-find to IVA conversion rates have improved (c. 18% versus 8% in FY08) and 98% of proposals are now passed by creditors (FY08: 65%) as creditors accept the benefits of IVAs under the new IVA protocol and see distributions earlier. The overall IVA market has returned to growth, albeit below 2006 levels. ClearDebt is still a small provider but its low-cost (acquisition and processing), Web-based model should be able to scale to handle much larger volumes.

Increased DMP regulation likely to favour IVA providers

Abacus currently has 3,398 DMPs generating income and it is adding c. 250 per month. Around 25% of leads are currently agreed as DMPs and c.50% of these subsequently pay and both metrics are improving. DMPs also represent a source for IVAs (and vice versa) – depending on which solution is most appropriate. As overall volumes of DMPs increase, the sector is coming under increasing scrutiny with a regulated DMP a likely outcome. This is likely to favour the existing IVA providers (such as ClearDebt and Fairpoint) that have demonstrated adherence to the IVA protocol and timely distributions to creditors.

FY09 a transition year with momentum building into FY10

The IVA and DMP payment models provide good forward visibility as the book builds. There are also cost synergies between the two divisions and ClearDebt has taken out costs through the integration of Abacus and ClearDebt. H1 also benefited from a £78k release of a previous £100k provision relating to legal action that was successfully resolved over defamatory remarks. Cash at period end was £222k (down £43k from FY08) and has since increased to £410k. Net debt was £1.0m, with a £1.2m loan from the CEO (also the largest shareholder). FY09 is a transition year and we would anticipate full year PBT to be modest (c. £0.2m) with momentum building into FY10 as macro trends continue to benefit.

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Disclosure checklist**Company**

ClearDebt
 Fairpoint

see key below

Code	Disclosure
CLEA.L	2,3,6
FRP.L	3

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